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Pensions & Investment Age

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The aftermath

Investors see buys, lessons

October's market crash, although spectacular and painful, was a positive development, many institutional investors contend.

They view it as a timely, modestly expensive, but not fatal, warning, like a spinout on a slippery road: If the drivers heed the warning, a more serious crash can be avoided. Many investors have reacted to the warning, not by pulling onto the shoulder of the road and stopping, but by moving cautiously to resume normal activity.

This was reinforced Oct. 29, when institutional investors returned to the market in force, pushing the Dow Jones industrial average up 91.51 points.

Although the crash is estimated to have cost investors more than $500 billion, and pension funds about $200 billion, most investors saw positive aspects a week after the disaster:

- The White House and Congress are talking to each other about meaningful reductions in the budget deficit.
- The psychological impact of the crash may cause consumers to reduce their spending plans, and especially to stop living beyond their means by piling up increasing amounts of debt.
- Stock prices and price-earnings ratios are at what many regard as more realistic levels than they were at the beginning of October, presenting buying opportunities.
- Interest rates, which had risen sharply through the beginning of October, have fallen again as the Federal Reserve Board injected reserves to provide whatever liquidity the financial community needed.
- The decline in interest rates has provided corporations a financing window in which to renegotiate higher interest debt or replace planned but abandoned equity financing with debt financing.
- The crash is forcing exchanges, particularly the futures exchanges, to examine the impact of portfolio insurance and program trading, and to consider rules to limit such activities to dampen the extreme volatility the markets experienced.

The causes

Two weeks after the crash, institutional investors were in general agreement as to why it occurred and what triggered it.

The causes were stock prices running far ahead of fundamentals leading to the common expectation of a correction; rising interest rates; concern over the federal budget and trade deficits; and a slump in foreign buying support for U.S. securities because of the declining dollar.

The triggers were Treasury Secretary James Baker III's verbal brush with the West German government; poorer-than-expected trade deficit figures; and a House Ways and

Continued on page 53

TATE: It looks like JMB aise the $1.5 billion in d investments it needs to acquisition of Cadillac Page 31.

CORPORATE FINANCE: M.A. Hanna squeaks through with an equity issue just before market bears slam the door — Page 39.

CASH MANAGEMENT: America's corporate treasurers are biting their nails over short-term interest rate stability in the wake of the stock market tumble — Page 17.

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Financing window still open

By Marcia Parker

Urged on by Wall Street's corporate finance gurus, chief financial officers and treasurers are scouting for — and finding — windows of opportunity to raise money despite the stock market's wild gyrations.

"There are financing opportunities," said James Crowley, co-head of investment banking, Prudential-Bache Capital Funding, New York. "You just have to find them."

The advice given by investment bankers to corporate clients is to carefully assess financing needs to year end and see if it makes sense to try any of the current financing options, especially medium-term financing.

"Look hard at your financing needs. Make sure you are prudently financed and your sources of capital are secure. And if you have an enormous reliance on floating-rate debt or financing you've been delaying, this is a good time to lock in financing," said Thomas K. McCaughey, managing director-capital markets services group, Salomon Brothers Inc., New York.

Ron Starkman, vice president-corporate finance, American Express Corp., New York, agrees opportunities exist, but "it's also hard to capitalize on them. You have to compress your decision making to a very tight time frame."

For corporate treasurers, the challenge of deciding whether to finance now or later depends on their outlook for the economy in general and interest rates in particular.

Interviews with corporate treasurers and finance executives found them evenly divided. Half, believing interest rates will rise again, are financing now while rates are depressed. The others, betting rates will fall further, are holding off on any financing.

At the moment, the financing windows are confined mainly to the U.S. public debt and the private placement markets, with little appetite among foreign investors.

Cash offerings in the equity market all but dried up since the unprecedented 508-point drop in the Dow Jones industrial average Oct. 19.

And the consensus on Wall Street is that equity offerings probably won't pick up before year end or perhaps early next year, assuming market confidence is restored.

"It's very hard to get equity deals priced and done," Mr. Crowley said. "It will come back, but it will take time."

Salomon Brothers is slightly more optimistic about a revival of the equity market than many of its counterparts. Salomon's latest credit market monitor said the upcoming equity calendar suggests renewed activity, though issuance is more likely to remain light until the market calms.

Mr. McCaughey said many Salomon customers have equity deals on the drawing board. "Stay tuned. We should be back in business in a few weeks," he added.

Although the equity markets are temporarily languishing, the debt market is thriving. Interest rates in the corporate bond market have fallen significantly, which has spurred a rash of high-quality companies to float new issues.

Companies are using the money for various purposes, including general corporate spending, to buy back stock, and to pay off more expensive debt.

The domestic corporate bond market benefited from the stock market's decline. Issuance for the week after the market collapsed totaled $3.7 billion, the highest volume in eight months, according to Salomon Brothers. Gross offerings were relatively strong across most sectors, with sales finance companies the most active. Sales finance companies include consumer finance firms, insurance companies and brokerages. Salomon expected $4 billion to $5 billion by the end of last week.

Investment bankers say issuance should remain strong in the weeks ahead as suppliers, who remained on the sidelines when interest rates rose in August and September, take advantage of the lower interest rate environment.

"This has resulted in a fresh look at financing on the debt side," Mr. McCaughey said.

Several options are available in the U.S. public debt market, especially to the strongest investment-grade companies, investment bankers say. Many of the debt financings done by companies since the market crashed consist of shorter-term maturities. Only a few issues stretch beyond 10 years.

Continued on page 53

Buybacks cause for concern

By Brad Rudin

Announcements of stock buybacks totaling more than $15 billion helped stabilize the frenzied stock market, but could cause headaches for some companies in the future.

The proposed buybacks, only some of which have been carried out, bolstered confidence, market analysts agree, but have raised concerns about the wisdom of diverting cash from debt service payments and capital expenditures.

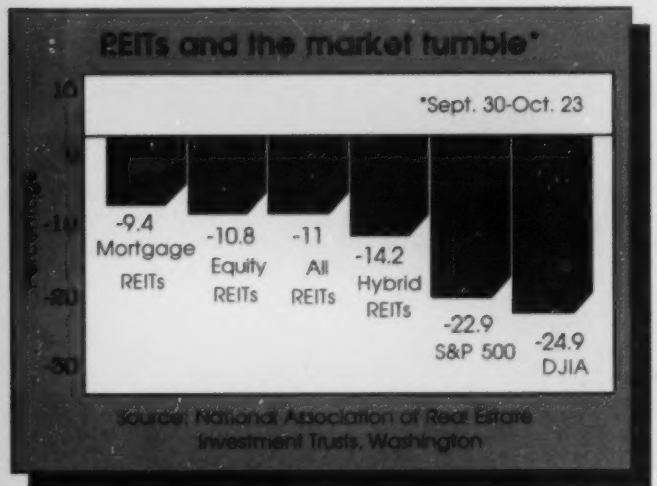
And to the extent that some companies borrowed to finance the repurchases, they may have added leverage to an already leveraged balance sheet.

Continued on page 45

A sampling of recent buyback announcements*

Company	Maximum shares to be repurchased	# of shares outstanding
AMAX	3 million	98,160,000
Beneficial	1 million	23,000,000
Consolidated Freightways	2 million	38,500,000
Dow Chemical	2 million	192,000,000
Dunkin' Donuts	500,000	6,860,607
General Host	1 million	22,500,000
Gibson Greetings	1.8 million	15,700,000
Hilton Hotels	3.9 million	24,964,787
Honeywell	5 million	44,000,000
Nat'l Distillers & Chemical	6 million	32,800,000
NCR	10 million	91,899,079
NWA	1 million	30,000,000
Pacific Telesis	10 million	432,100,000
PepsiCo	15 million	260,000,000
Phelps Dodge	3 million	30,800,000
Procter & Gamble	10 million	169,196,524
Temple-Inland	2 million	29,780,531
Union Carbide	10 million	131,613,863
Vista Chemical	500,000	16,000,000
Zayre	5 million	56,700,000

* Several buyback announcements were extensions of previously announced repurchase plans



REITs miss market drop

By Nancy K. Webman

Real estate investment trusts escaped relatively unscathed from the gyrations that jolted the stock market.

REITs, on average, declined in value 11% between Oct. 1 and Oct. 23, compared with 24.9% for the Dow Jones industrial average and 22.9% for the Standard & Poor's 500 stock index, according to Chris Lucas, research director for the National Association of Real Estate Investment Trusts, Washington.

NAREIT's Share Price Index of 96 tax-qualified REITs trading on the three major exchanges also showed mortgage REITs fared best, losing 9.4% of their value. Hybrid REITs posted a 14.2% drop. Equity REITs dipped 10.8%.

Mr. Lucas couldn't explain why hybrid REITs suffered the most. But one real estate analyst, who asked not to be named, speculated most hybrids are health-care REITs,

Continued on page 46

Catch-22 for realty

By Joanne Friedrick and Nancy K. Webman

The stock market's tumble caught real estate in a Catch-22: Institutional investors are more inclined to bet on real estate, but they'll have fewer dollars to ante up.

No doubt real estate, whose returns had been tarnished by abysmal appreciation in an overbuilt market, has taken on a new luster among pension investors looking for safer harbors and diversification for the assets they pocketed when they dumped their stocks.

But pension funds have a target allocation to real estate — a percentage of total assets — and a fund that lost money in the stock market now has fewer assets. As a result, the proportion of real estate assets in the portfolio could have risen to the target level, making it difficult for a fund to commit more to real estate.

American Telephone & Telegraph Co., New York, one of the biggest pension fund players in real estate, could face just such a dilemma.

Ronald R. Roessler, director-investment management at the $26 billion AT&T fund, said AT&T's $2.4 billion in real estate is comfortably within its target range of 10% to 15% of total assets. Yet he cautioned: "If the stock market were to continue to drop, we would find ourselves on the upper end of the range and, while we wouldn't sell anything, we might have to pull back."

Even smaller funds could see allocations exceed targets, and the funds will stop investing, said Brian K. Walters, vice president of CM Asset Advisors, the consulting subsidiary of Connecticut Mutual Life Insurance Co., Hartford.

Many funds, however, had been well below their targets, and pension executives and trustees were hesitant to choose a bearish real estate market over a bullish stock market. But that could change.

"If this is a market scare, clearly it will be good for real estate and will focus on the need to diversify," said Stanislaw Maliszewski, principal in the Chicago office of RREEF, a San Francisco-based real estate investment

Continued on page 46

Highlights

CASH MANAGEMENT
Bank duties rank No. 1 17
NCCMA projects OK with executives 17
Cash accounts 18

CORPORATE FINANCE
Mary Kay in the pink 39
Credit quality up for quarter 39

REAL ESTATE
Wisconsin set to deal 31
Wrap-up 32

GENERAL NEWS
Fact-finding follows market crash 4
Tactical allocation passes test 6
Market socks defined contribution plans 8
Floor-offset plan risks eyed 10

DEPARTMENTS
International update 35
Late news 54
Letters 12
Market beat 36
Money movers 44
Opinion 12
People 37
Washington notebook 24

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Cash Management

Banking duties rank No. 1

By Barry B. Burr

Treasury executives responsible for cash management spend more time on float management and other non-lending banking relations, even though broader corporate finance activities are considered more important for promotion, according to a *Pensions & Investment Age* survey.

In the survey, executives ranked the amount of time they spend performing various treasury management functions and which of those functions leads to promotion.

The results show they spend less time in those functions considered most important for promotion.

The findings were compiled from 128 responses to questionnaires on corporate cash management practices and attitudes, mailed to 500 domestic cash and treasury management executives at 500 large corporations.

Among other results, the survey found:

- Corporate mergers and acquisitions have had little effect on cash management professional staffs at most companies.

In fact, of the responding companies affected by mergers and acquisitions, the survey found almost as many of the companies increasing professional staff as decreasing it.

- Financial troubles at banks caused nearly half of the responding companies to either drop or reduce the use of them for cash management services.

On treasury functions, the survey found more than 50% of the respondents ranked broader corporate finance activities as the most important treasury management function leading to promotion.

Yet they devote, on average, nearly 22% of their time in float management, selecting collection and disbursement banks and dealing with other non-lending banking relations.

Of the 11 cash management functions listed on the questionnaire, the respondents noted they spend nearly 20% of their time in broader corporate finance activities. Although it amounts to a plurality of their time on average, the results are skewed by a few respondents. Individually, more than half the respondents — nearly 55% — spend less than 20% of their time in broader corporate finance, most of them less than 10%.

In the survey, the executives indicate that, to get ahead, they have to spend more time in corporate financing activities.

Other areas of cash management covered by the survey include borrowing, investing, electronic funds transfer and the impact of mergers in the banking industry.

In addition, *P&I Age* surveyed the executives on matters relating to the National Corporate Cash Management Association. The concerns included the NCCMA's certification examination. (*See related story.*)

The survey also found:

- Little consensus exists on the use of benchmarks for measuring the performance of their corporate cash investment portfolios.
- Bank mergers have had little effect on cash management services provided to corporations, according to the survey.
- Most treasury executives are making no change in their strategy to boost investment returns.
- Further moves by companies are under way to pay charges for banking services in cash, known as fees, instead of by depositing compensating balances.
- Most corporate treasury departments play a leading or supportive part in developing electronic funds transfer programs to pay vendors. Of the respondents, 43% have a leading role; 34%, supportive; 10%, peripheral; 11%, hardly any; and 2%, none.

Of the respondents, one was vice president-corporate finance; eight, treasurers; 25, assistant treasurers; 21, cash managers; 11, managers of banking, or of banking, investment and finance; 17, managers of treasury operations or services; and, 11 managers, directors or supervisors of cash management or cash operations. Also included were director-finance, manager-planning and funding, or treasury analyst.

Cash management is tending to become more important at companies, the survey found.

A third of the respondents said cash management was viewed by their companies as more important this year than last; 5%, as less important; and 62%, about the same.

The amount of time the respondents spend in the treasury management functions listed in the questionnaire varied widely. After corporate finance, the category with the highest average percentage was "other," including dealing with other departments such as accounting, foreign exchange trading, cash flow forecasting, developing treasury systems and shareholder relations.

The survey found mergers and acquisitions since last year have had no effect on cash management professionals at 81% of the companies involved in the survey. At the 19% companies where it had an impact, slightly more than half of the respondents noted it resulted in a 41% decrease on average in cash management professionals.

But respondents at almost half of the affected companies noted mergers and acquisitions resulted in an increase of professional staff by an average 49%.

Financial trouble in the banking industry is causing cash management executives to review their banks' fiscal soundness more

Continued on page 21

1. How have bank mergers affected your cash management services?

improved service	9%
service declined, but bank retained	12%
no change	76%
changed banks	3%

2. What percentage of your banks' charges do you pay in:

compensating balances	46%
cash fees	54%

What is your goal for 1988:

compensating balances	39%
cash fees	61%

3. Have you hedged any of your borrowings to protect against potentially rising interest rates?

do so now	24%
considering	21%
ended this year	3%
ended before 1987	4%
never did so	48%

4. To boost investment returns in a low interest rate climate, are you:

taking on more risk	4%
investing in new instruments, strategies	29%
hiring outside managers	4%
not changing strategy	63%

5. What role does the treasury department play in developing an EFT program to pay vendors?

leading	42%
supportive	34%
peripheral	10%
hardly any	12%
none	2%

NCCMA's projects OK with executives

Although a number have some reservations, corporate treasury executives generally are pleased with the major projects of the National Corporate Cash Management Association in professional certification, account analysis and lobbying banking regulators, according to a *Pensions & Investment Age* survey.

The survey found little interest by corporate executives in asking their banks to use the new banking account analysis standard, developed by the NCCMA.

In addition, it found fewer people at fewer companies taking the NCCMA certified cash manager examination.

The findings were part of the survey taken from responses to questionnaires completed by corporate cash managers and other treasury executives on cash management practices and attitudes.

Some 25%, or 125 of the 500 executives at 500 large companies sent questionnaires, responded.

When asked how effective the NCCMA has been in lobbying regulatory authorities about corporate concerns, such as Federal Reserve Board officials on daylight overdrafts, 19% of the respondents believe the group has been very effective; 69%, somewhat effective; and 12% said it had no effect.

On the NCCMA certification exam, 58% of the respondents said their companies think the test is worthwhile, while 42% said their companies don't think it is worthwhile.

The survey found the number of people taking the NCCMA certified cash manager examination dropped this year from 1986, the first year it was offered.

The questionnaires asked how many people in each company took the exam and how many passed it. The survey didn't indicate if the respondents took the exam.

In 1986, 59 people at 40 companies took the exam; 48 peo-

Continued on page 18

Scudder, Stevens & Clark corporate cash matrix

	Yield: Sept. 30		Yield: 3 mos. ago		Yield: 1 yr. ago		Total return: Latest 3 mos.		Total return: Latest 12 mos.	
30-day										
Prime commercial paper/CD/BA*	7.50	4.50	6.75	4.05	5.88	3.18	1.72	1.03	6.60	3.82
Prime tax-exempt commercial paper	9.08	5.45	7.00	4.20	7.04	3.80	1.78	1.07	7.25	4.23
49-day										
Auction-rate preferred stock (AAA-AA-A composite)	8.94	5.36	7.66	4.60	7.56	4.08	1.97	1.18	7.66	4.47
90-day										
Treasury bill	6.80	4.08	5.77	3.46	5.31	2.87	1.45	0.87	5.91	3.42
Prime commercial paper	7.60	4.56	6.93	4.16	5.83	3.15	1.64	0.98	6.24	3.62
Prime tax-exempt commercial paper	8.96	5.38	6.88	4.13	7.50	4.05	1.47	0.88	6.77	3.95
1-year										
Treasury bill	7.76	4.66	6.67	4.00	5.77	3.12	0.58	0.35	4.20	2.43
Prime municipal note	9.33	5.60	7.17	4.30	8.33	4.50	0.00	0.00	3.64	3.07

The matrix is at a constant maturity, meaning all instruments are rolled over monthly. Income is taxed at 40% for 1987 and 46% for 1986; capital gains and loses are taxed at 34% for 1987 and 46% for 1986.
* CD is certificate of deposit; BA is banker's acceptance

pretax
after-tax

Market upsets rates' stability

By Fred Williams

Following Wall Street's recent crash, corporate treasurers expressed fears over short-term interest rate stability as they watched cash pour into short-term instruments and cause wild, intraday swings.

Millions of dollars were taken out of the stock market during the Oct. 19 508-point drop in the Dow Jones industrial average and were moved into government bonds, Treasury bills and money market instruments in a "flight to quality."

The increased money supply forced interest rates lower, resulting in dramatic day-to-day swings in these instruments' rates. The swings were most pronounced in 30-day and 90-day Treasury bills, commercial paper and agency issues of short maturity, all bought and sold daily by cash managers borrowing or investing surplus cash positions.

The gyrations in the short-term market made it all but impossible to get a grasp on the short end of the market. Treasury officers and investment specialists look for rates to stabilize in the next few weeks.

"Treasurers are least affected (by the market collapse) in the management of short-term liquidity." A treasurer "is affected only

Continued on page 20